ARMY LEISURE TRAVEL

Commercial Travel Services

Chronology

1946 - SATO and DoD enter into MOA for travel; no commissions to MWR

1986 - Army MWR and SATO sign MOA

- Pays 3% on Leisure Travel (LT)

1986 - Sec Army combines official and LT

1988 - 5th Army first contract, pays 5% to LT

Chronology (Cont'd)

1988 - Travel Mgmt. office established at MTMC

- CFSC enters MOU with MTMC to contract LT

1989 - 6 Defense Travel Regions established

1991 - First region contracted (DTR 3)

1995 - Joint Leisure/Official Contracts pay NAFIs fees from 3.75 to 5.2 percent

Chronology (Cont'd)

1995 - SatoTravel sues Army

- Alleges NAF fees violated Misc. Receipts Act
- Airlines cap 10% commissions at $50/25

1996 - Circuit Courts rules future LT contracts must be evaluated & awarded separately

1997 - DoD established Defense Travel System

- Airlines cut commissions to 8%; $50 cap applies

Chronology (Cont'd)

1998 - CTO Contractors request Fee Reduction

- CWT withheld $1M in payments to MWR
- Balked on paying interest on back payment

Concession fees from leisure air sales reduced from average of 4.3% to 1.43% (no change to non-air)

Redetermination clause added to contracts

Chronology (Cont'd)

1998 - Legislation passed overcoming court ruling

- Allows leisure and official travel to be contracted together with joint evaluation and award
- CWT and SATO request concession fee reductions

1999 - First DTS LT contract awarded (DTR 6) paid 1.75%

- Commissions drop to 5%; caps still in effect; cap of $100 applied to international travel (previously exempt)

Chronology (Cont'd)

1999 - SATO and CWT request relief from fees

- Requested zero percent on air sales

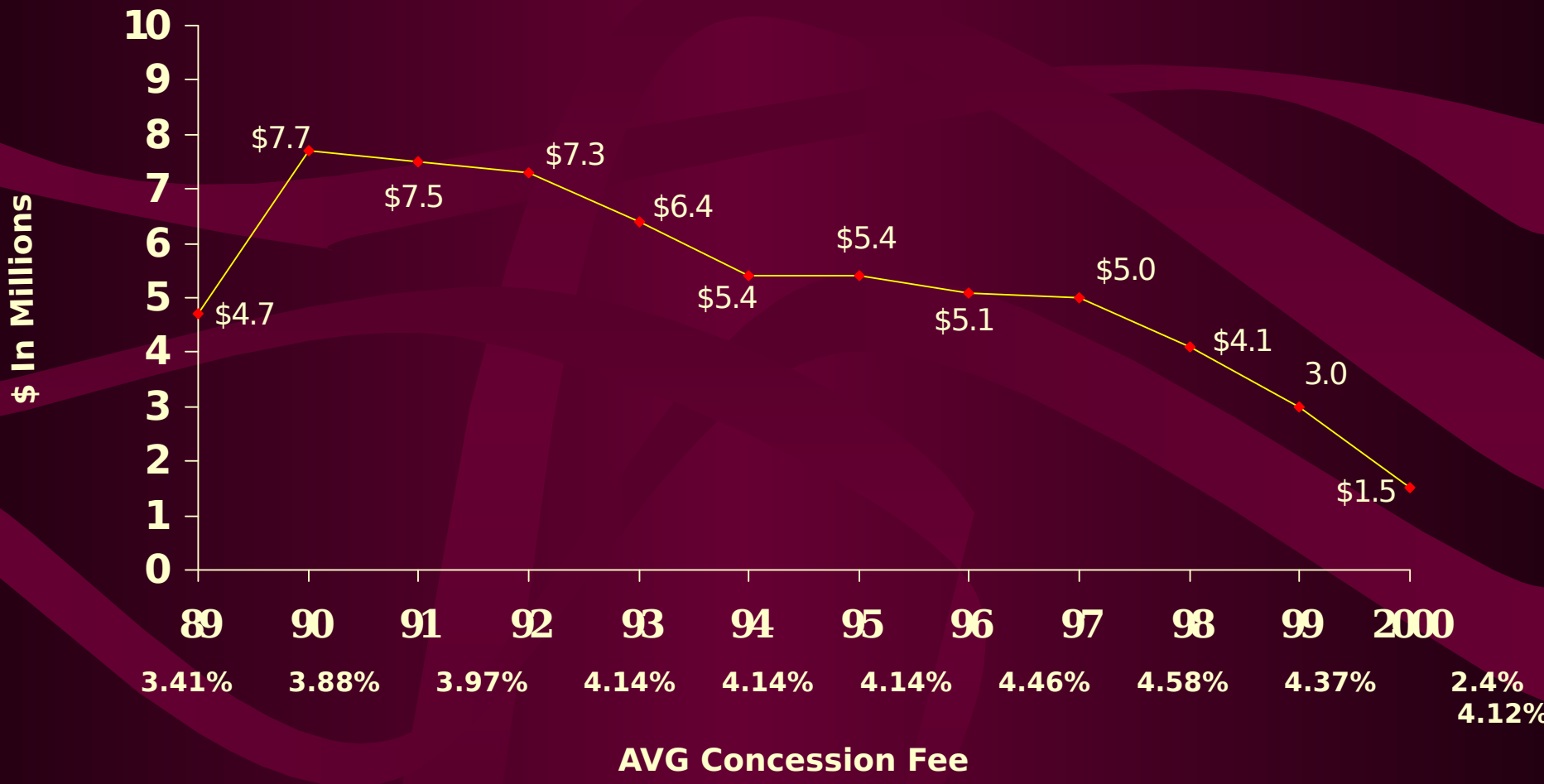
- CWT states it will terminate if air fees not eliminated and must charge "transaction fees"

  - Transaction fees can be lower if non-air fees also eliminated

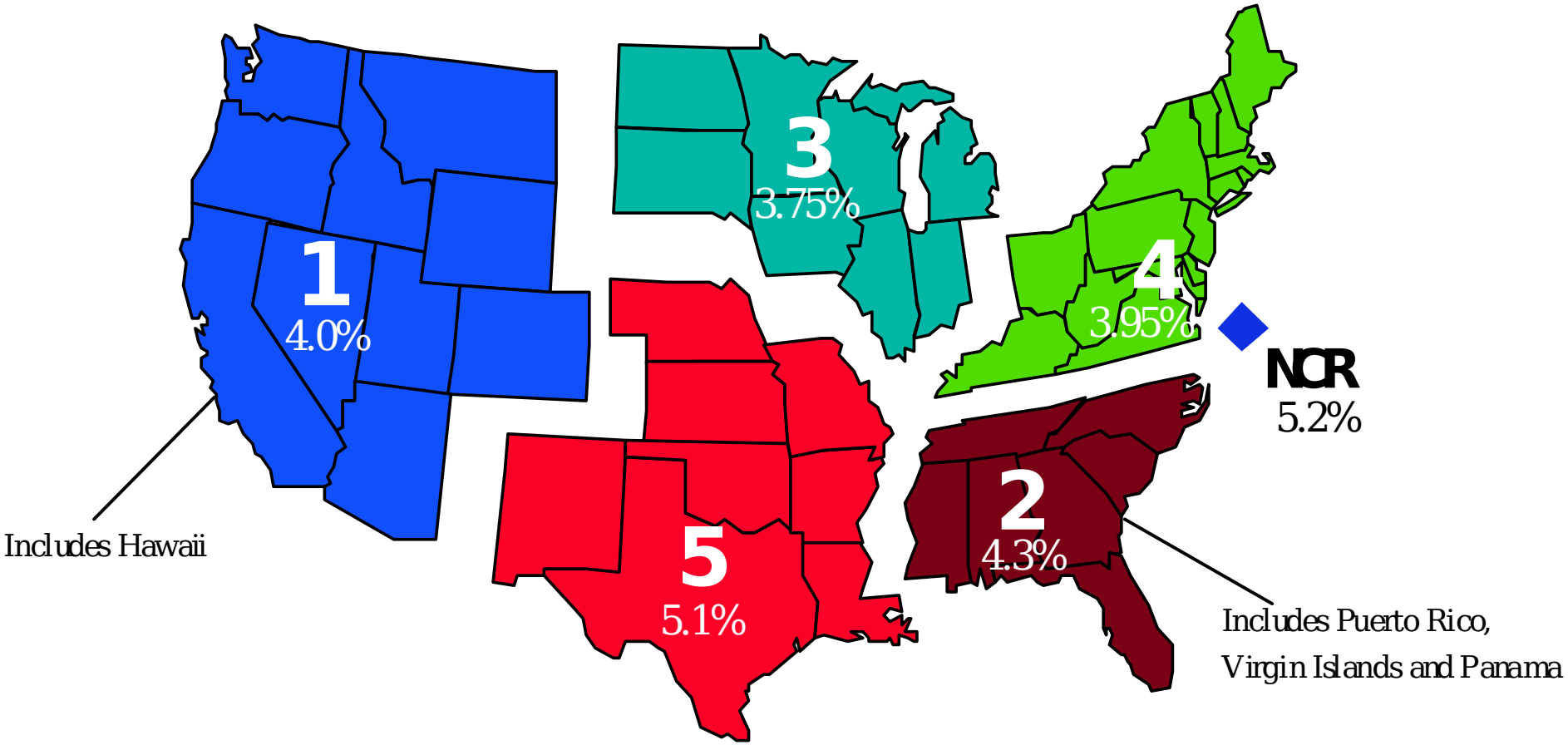
  - CWT's position is non-negotiable

- SATO also asks to impose transaction fees

Army Commercial Travel Office Income (1989 - 2000)



Defense Travel Regions*



*** - Original Contract Rates**

OCONUS Contracts

- USAREUR
  - Past…….6.14% (CWT)
  - Current……..flat fee (SATO)

Korea
- 4.0% (U.S. Airlines Alliance)

Industry Trends

- Airlines are reducing commissions paid to travel agents
  - Agent Fees 2nd to fuel in airline expenses
  - Expectations are commissions will drop again in ‘00
- Internet sales are increasing dramatically
  - $8B booked in 1999, expected to increase to $30B (world-wide) by 2003
  - E-Commerce making travel agents obsolete
- Non-Air (cruise, hotel, car rental) commissions have remained stable

Current Status

- Fees from leisure air reduced to 0% effective 1 Nov 99
- MWR rejects CWT request for transaction fees
  - Fees for service do not represent “best value”
  - Soldiers can purchase air tickets via other sources without fees
- MWR will assist travelers and provide the tools to make them self-reliant

Status, (Cont'd)

- CWT will cease leisure travel operations on 10 Jan '00
  - Affects most CONUS Installations
  - Exceptions: leisure in conjunction with official (LICWOT), emergency leave, and Exodus
    - Fee of $8.50 for LICWOT & Exodus
    - No fee for Emergency travel arrangements
    - Fees will escalate if commissions cut, to max of $24.00 at 0%
- SATO negotiations continue
  - Affects 3 major CONUS installations (McCoy, Selfridge and Rock Island)

Rationale for Decision

- Status of the industry
  - E-commerce making travel agents obsolete
  - Traveler has multitude of options
  - $30B in sales by 2003 via internet sales
  - Airline commissions will decrease to 0%

Rationale (Cont'd)

- Relationship with Contractors
  - Adversarial based on law suits and disputes, mandates and threats
  - CWT failed to meet expectations and promises on cruise business
  - No data provided to determine validity of assessing transactions fees
  - Airlines paying commissions
  - Perception of profit at soldier's expense
  - Contractor should never be allowed to dictate terms

Rationale, (Cont'd)

- Future of central contracts
  - Future vision of travel does not include on-site agents
  - Combined contracts not to MWR advantage
  - Contractor ultimately will be forced to terminate services ….at their convenience
  - MWR must seek options
  - Exclusivity provisions need to be eliminated

Rationale, (Cont'd)

- Soldier Concerns
  - Provide support in emergency, LICWOT and exodus circumstances
  - Self-reliant consumer

Impact

- Concession fee income to
- FY 99 fees paid were $900K on Air and $550K on Non-Air
  - OCONUS not impacted at this time
- Service to Soldiers
  - Leisure ICW Official Travel, Emergency leave, and Exodus travel arrangements can still be made via official travel offices, however, transaction fee will be charged
  - MWR will assist with other arrangements until new service options are in place

Exploring Options

- Commission on internet linkage
- Agreements with airlines
- Central reservation office.....1-800
- Joint Service venture
- Installation may pursue separate contracts

Support

- Web based information with linkage
- ITR to assist soldiers

  -counsel

  -credit
- SOW available for installation use
- PAO developing press release for installation use

Other Services

- Joint service ventures
  - -Specialize in non-air
  - - Provide air reservations with no transaction fees
  - -Installations share profits
- Navy
  - Central Reservations call center
  - No satellite printer
  - Staffed offices in Norfolk, San Diego and Hawaii
  - Marketing through ITT

Other Services, (Cont'd)

- Air Force

  -Contracts are under local control

  -HQAF has issued guidance not to accept transaction fees

  -Will withdraw from future participation in DTS contracts

  -Interested in pursuing a Joint Service Travel Office